

**SPECIAL PURPOSE EXAMINATION OF THE RECORDS
OF THE CITY OF CROSSVILLE
FOR THE PERIOD JULY 1, 1999, THROUGH NOVEMBER 30, 2000**

LEGAL ISSUE

Our examination, made in conjunction with an investigation by the Crossville Police Department, revealed that for the period July 1, 1999, through November 30, 2000, a city clerk apparently manipulated utility and property tax records in a scheme to embezzle \$8,181.12 from the City of Crossville. The clerk admitted that she had used the extracted cash for personal purposes without authority.

The clerk apparently violated the following state statutes:

Section 39-14-103, *Tennessee Code Annotated*, Theft of property, states that "A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner's effective consent."

Section 39-16-504 *Tennessee Code Annotated*, Destruction of and tampering with governmental records, states:

- (a) It is unlawful for any person to:
 - (1) Knowingly make a false entry in, or false alteration of, a governmental record;
 - (2) Make, present, or use any record, document or thing with knowledge of its falsity and with intent that it will be taken as a genuine governmental record; or
 - (3) Intentionally and unlawfully destroy, conceal, remove or otherwise impair the verity, legibility or availability of a governmental record.

Section 39-16-402, *Tennessee Code Annotated*, Official misconduct, states:

- (a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly . . .
 - (4) Violates a law relating to the public servant's office or employment; or
 - (5) Receives any benefit not otherwise authorized by law.

The clerk was subsequently indicted by the Cumberland County Grand Jury and charged with theft over \$1,000.

Our examination also exposed certain deficiencies in the city's internal controls, which allowed this apparent embezzlement to occur and remain undetected. These deficiencies are noted below. Our office has developed a model internal control system for the City of Crossville's collection process and provided it to city officials.

FINDINGS AND RECOMMENDATIONS

1. **FINDING:** Inadequate separation of duties

Although there were several collection clerks, one clerk opened mail, received collections, recorded collections, and prepared bank deposits. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 1, Chapter 2, Section 2, states:

Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently. . . .

RECOMMENDATION:

To decrease the risk of undetected errors and irregularities, municipal officials should review employees' responsibilities to ensure that no employee has control over a complete transaction.

MANAGEMENT'S RESPONSE:

Finance Director:

I concur with this finding. An additional employee was hired to enable us to properly segregate duties. Customer service representatives previously updated customers' accounts with each day's cash receipts. Samantha Bullock will now serve this position of posting to customer accounts (named Accounts Receivable Bookkeeper in internal control model). She will reconcile account postings to the previous day's deposits. Vicki Hollingsworth will be able to perform the mail duties while answering the phone. These individuals do not have job duties which would interfere with the levels of control. Representatives receiving cash *do not* post water payments nor open the mail. We now have a team billing cycle. With these changes, no employee has control over a complete transaction.

Any of the other steps listed in the model and not mentioned here are controls implemented prior to the investigation. We already had proper controls in place within the finance activities. These are concurrent with those suggested by the Comptroller's Office.

City Manager:

I concur with the finding, the response, and the plans/actions of the finance director to correct the deficiency.

2. **FINDING:** **Collections not deposited intact**

Collections for each of the two primary city bank accounts were not deposited intact. In some instances, collections for both accounts were included on one bank deposit slip, and then split via a notation on the slip. In other cases, the cash/check ratio did not conform to the cash/check ratio for the related receipts. In addition, we noted that employees cashed personal checks through the cash drawer.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states, "Collections should be deposited promptly and intact . . ."

RECOMMENDATION:

To better account for city assets, municipal officials should ensure that collections are deposited intact into the appropriate bank account. Split deposits should be prohibited. The finance director should authorize any deposit adjustments at the end of each month.

MANAGEMENT'S RESPONSE:

Finance Director:

I concur with this finding. Basically, we have completely changed the components of the daily cash deposits. Now, each customer service representative has two mailbags: one for general fund and one for water and sewer. Each person makes two separate deposits, and more detail is provided on the makeup of the deposit. Collections of sanitation bills are initially deposited into the water and sewer account. Customer service representatives no longer split the amount provided on the payment stub. A weekly wire transfer will be made to provide for the split of sanitation payments and water bill payments. You had recommended a monthly transfer; however, we feel that a weekly transfer will be more efficient.

In addition, everyone is now using systematic abbreviations on the deposit backup. Previously, they had more freedom to indicate cash, check, etc., with their form of abbreviations. Employees *are not allowed* to cash personal checks for anyone through their cash drawers.

City Manager:

I concur with the finding, the response, and the plans/actions of the finance director to correct the deficiency.

3. **FINDING:** **Deposit slips not itemized**

Collection clerks did not individually list each check on the bank deposit slip. As a result, one clerk was able to manipulate checks and bank deposits without detection. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 4, requires that each check deposited be listed separately on an itemized deposit slip.

RECOMMENDATION:

To properly document bank deposits, deposit slips should be itemized and should list each check separately.

MANAGEMENT'S RESPONSE:

Finance Director:

I concur with this finding. Some new internal forms have been developed to provide itemization of checks. Previously, adding machine tapes supported deposits. A detailed check listing form has been created to replace adding machine tapes. This will be a form with line items to list checks singularly (amount and name).

City Manager:

I concur with the finding, the response, and the plans/actions of the finance director to correct the deficiency.

ADDITIONAL CHANGES

Even though these were not specified within the findings, we discussed other changes with Philip Job. For example, new prenumbered receipt books are being printed for customers who pay without a card/stub. Previously, these receipt books were not prenumbered.

We also have a change of address form. The Comptroller's Office did not want customer service representatives to alter any information on the customers' accounts. They currently have the option to make changes on customer accounts. Now, all account changes requested by the customer will be written of a change form and submitted to Samantha. Samantha will make these corrections as needed. Our current computer software will not allow "view only access" to the customer account information, as suggested by the Comptroller's Office.

All of the above changes are currently in place. We are meeting with our independent auditor to discuss the efficiency and progress of these changes in the near future.